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# Politics of Revenue Allocation in Nigeria: a re-Visitation

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***Abstract*** *Revenue sharing or allocation in federal political system is prone to a number of problems rooted in politics. Federalized system essentially places emphasis on cooperation and compromise. Revenue allocation in a federal system is one such area that call for a great deal of consensus built on meaningful compromises. Of the many problem that have always arisen with regard to revenue sharing in all federations, two stand out with respect to Nigeria. The first is how to deal with the problems arising from inequalities in size and wealth among federating units. The second is how to ensure that growth of any unit does not suffer because some other unit(s) shows inability to catch up with the more progressive one(s). These problems have been variously tackled in Nigeria through the instrument of fiscal review Commissions. These Commissions had operated under very charged atmospheres given the highly emotive and volatile nature of the politics of revenue allocation. The nature and outcome of the efforts of these Commissions remain ad hoc arising questions over their utility in dealing with the ever-controversial and polemical issue of revenue allocation. This paper is an attempt at an inquiring into the forces at work in the politics of revenue sharing in Nigeria. Have the various formulas served the purpose of ensuring equitable fiscal federalism? It is argued in this paper that the dream of equitable and acceptable revenue sharing in Nigeria is yet to be realized, and will remain far-fetched as long as political calculations govern the choice of formula to the virtual exclusion of sound economic and public finance practice based on optimal allocation efficiency and distributive equity.*

***Keywords:*** *Revenue allocation, Federal system ,Public Finance*

## 1. Introduction

The issue of revenue allocation in every political system especially federal ones, is prone to a number of problems which are rooted in politics. Nigeria's experience presents us an interesting object of study and discussion.

Nigeria came into existence as a united political entity on the 1st of January 1914 when the British Colonial authorities amalgamated the Protectorates of Northern and Southern Nigeria. At the time of birth, Nigeria was just a territory inhabited by various heterogeneous ethnic communities with hardly common culture and only united in so far as they were governed by a single foreign power. The amalgamation of 1914 did not bring forth appreciable constitutional changes. Indeed, until 1946, the North and the South continued to be governed as they had before 1914. There arose a difficulty in harmonization and assimilation of the North and the South because they continued to be governed separately and pursued, for all practical purposes, interests that are disparate in many ways. Thus, the administrative structure given to Nigeria by Lord Lugard had existed practically unchanged for some sixty years (Adedeji 1969:23).

Before the introduction of Indirect Rule in 1914, there had existed a system of revenue collection and allocation in the Northern Emirates. The Muslim communities in the North were well organized and led hierarchically structured public administration with various machineries such as Alkali Courts and Native Treasury. The taxes were collected by the Emirs, in compliance with the native law and custom, and was later shared by the native authority and the colonial power. The practice of paying traditional tributes was later abolished and in its place was the introduction of a uniform tax system. It is important to quickly point out that the amalgamation of Southern and Northern Nigeria was prompted by

administrative, political, fiscal and economic considerations. The North was bedeviled with serious financial constraints and it was because of the fragility of the economy and its attendant financial burden on the British Government that Lord Lugard considered it economically and financially prudent to amalgamate the two protectorates in 1914, so that the North might benefit materially from the economic surpluses of the South (Political Bureau Report, n.d: 169).

Federalism is essentially a constitutional government that places emphasis on co-operation and compromise, and can hardly succeed without the necessary political consensus and respect for the rules of the political game. Federal finance is one such area that call for a great deal of consensus and compromises. The basic problem in federal finance is the allocation of revenue between the various levels of government and among the units so that each government may have the financial capacity to perform the functions assigned to it. Federalism is not merely a technique of organizing a governmental system, but is also a political philosophy prescribing accommodation and unity in diversity. The component units of the federation must be enabled to control some of their affairs in their own ways with their own resources. The philosophy of federalism would indeed be a barren one, however, if it implied that the units would be left to fend severally for themselves in such away that the rich would become richer and the poor poorer. On the contrary, the idea and ideals of balanced development of the component units is implied in the philosophy of federalism (Awa 1976:64).

A fundamental reason shaping revenue allocation in a federation such as Nigeria is the fact that, generally, the pattern of revenue allocation often reflects and tends to reinforce the balance of political and economic power between the component states and the central government. If the federation is characterized by strong essentially autonomous federating states and a relatively weak center, revenue allocation arrangements which seek to reflect this constitutional reality by giving fiscal autonomy to the states, inevitably strengthen such states at the expense of the center. Where however, the objective is to foster growth of co-operative federalism, revenue allocation is designed to facilitate the co-ordination and harmonization of fiscal policies in the interest of an integrated polity.

Federally collected revenue is the mainstay of the finances of the state governments in Nigeria, accounting for about 90% of their total revenue. It is this revenue therefore that the state governments use in maintaining their services – to pay their staff, pay for essential supplies and executive their capital projects. Their financial viability, as autonomous governmental units, hang upon this source. The attitude of the actors in the sharing of this revenue is almost a matter of life and death, exciting deepest concerns and strongest emotions. This contrasts with the motivation for revenue sharing in the more settled federations where the revenue to be shared represents only a small fraction of the states' total revenue and is, therefore, merely a supplementary rather than a primary source of state resources (Nwabueze 1983:181). The absence of sufficient independent state revenue implied in the extreme dependence of the state governments on federally collected revenue is a by-product of the circumstance in which the Nigerian Federalism originated from an existing unitary state, devolving some powers to newly created governmental units located in these regions of the country. Had the federation been formed by the coming together of existing Independent States with already developed sources of revenue of their own, the question would have been how much of such sources of revenue should be surrendered to the new Federal Government.

According to Okwudiba Nnoli (1980), some of the regions relied more on federal resources than others. For example, the 1962 – 1966 plan implied a transfer of federal resources to the North amounting to N58.2m compared to N39.8m to the West and N24m to the East. The most important and persistent struggles among ethnic groups for federal resources was carried on over revenue allocation. The Federal Government was and still is the principal revenue earner in the country. Therefore, the central government has always controlled more resources than the component units. Inclusive governments in all federations tend to have some surplus funds while, in some cases, the units just manage to balance their budgets and, in other cases, they cannot effectively cope with the functions assigned to them. In other words, after some funds have been transferred from the center to the regions following constitutional specification or the recommendations of specific bodies, the regions still need additional financial aid in order to be able to perform their functions well. The central governments are compelled by circumstances to remit more funds to the units. The central government must do this because first, the philosophy of federalism makes it mandatory for it to spend money on the development of the entire manpower resources of the federation; and second, there is an increasing demand everywhere for equity in the fields of social services where citizens expect reasonably similar standard of health services and educational opportunities wherever they live in a country. Additional money is remitted to the regions through the medium of grants which may be conditional or unconditional (Awa 1976:182).

Two fundamental problems have always arisen with respect to revenue sharing in all federations. The first is how to deal with the problems arising from inequalities in size and wealth among federating units. The second is how to ensure that growth of any unit does not suffer because some other unit(s) show inability to catch up with the more progressive one(s). The following section is a modest presentation of how these problems have been addressed in Nigeria through the instrument of fiscal review commissions.

## 2. Review of Past Commissions

Because of the fiscal problems between the centre and the units and the competition among the various claimants to the scare national resources, it became necessary that fiscal review commissions be appointed to study the fiscal relationship between the federal government and the component units, as well as the economic and financial relationship among the units themselves and make recommendations to the successive governments on how to allocate federally collected revenue. A look at these commissions will serve our purpose at this juncture.

### *2.1 Phillipson Commission of 1946*

The Richards constitution of 1946 initiated the process of decentralization and three regions were reorganized in Nigeria as administrative units. It then became necessary to determine the services in each unit and how it should be financed. Consequently, sir Sydney Phillipson was commissioned to make a comprehensive study and recommend administrative and financial procedure to be adopted under the 1946 constitution. Phillipson recommended the 'principles of *derivation* and *even progress*' as principal determinants of federally collected revenue accruing to each region. Difficulties arose in the implementation of the Phillipson formula, with the North arguing that the money that was due to it had gone to the East; while the latter and the West charged that the North had received an unfairly large allocation. The dispute came to a head at the Ibadan Constitutional Conference of 1950. The Northern delegates argued for the distribution of central revenues to the region on a per capita basis, those from the West called for the unalloyed adoption of the principle of derivation in view of its overwhelming contribution to such revenue, while the Eastern delegates pleaded on behalf of the principle of need which was more beneficial to their relatively poor region (Nnoli, 1978:203).

### *2.2 The Hicks-Phillipson Commission (1951)*

In 1951, a new constitution was introduced which considerably strengthened the regional councils. This constitution marked the first decisive step towards federalism in Nigeria. Since the regional governments were constitutionally subordinate to the central government. It was inevitable that there were frequent frictions between the two levels of government, which eventually led to the breakdown of the constitution and to the introduction of a new one in 1954. As part of the constitutional review which led to the 1951 Macpherson Constitution, the Hicks – Phillipson commission was appointed in 1950. The Commission's Report recommended that Regions should be given power to raise, regulate and appropriate certain items of revenue. This led to the emergence of the 'principle of independent revenue' in Nigeria Federal finance which, in the view of the Commission, was desirable both in the interest of regional autonomy and of proper financial responsibility and efficiency of administration. The Commission advocated a system of revenue allocation based on *Derivation, Need and National Interest*. Other extreme views included a suggestion that the Federal Government should be just a little more than the agent of regional governments and it should derive its funds from a levy on regional governments.

The Yoruba faction of the privileged class stood to benefit most from the application of the 'principle of derivation'. Although there was a boom in the sellers' market for the products of the West and the North, cocoa and columbite respectively, the revenue from the sale of cocoa far outstripped that of any other product (Nnoli, 1978). The most important and lasting contribution of the Hicks-Phillipson Commission in the development of Federal finance in Nigeria can be summarized under three headings: (1) Its rejection of the derivative principle as the sole or most important basis for allocating revenue among the regions; (2) Its discussion of some of the general principles of Federal Finance and their application to Nigeria; and (3) Its advocacy of a system of revenue allocation based on the adoption of not just one but a number of criteria which together would ensure justice, liberty, fraternity and efficiency (Adedeji, 1969).

*2.3 The Chick Commission (1953)*

As a result of the political and constitutional crisis of 1953, many observers in both Nigeria and Great Britain came to the view that any new constitution for Nigeria must provide for a larger measure of autonomy for the regions than the 1951 constitution allowed. A new constitution, the Lyttleton Constitution, was adopted. Regions gained enormously in terms of autonomy. Sir Lious Chick was therefore appointed to review the fiscal arrangement.

The tax powers of the Federal Government were still substantial. In fact they remained much as they had been under the 1951 Constitution. Partly because of the great change in the constitutional position of the Regions and partly because the Regions were anxious to reduce the financial resources of the Federal Government to the minimum so that they could have a much larger share, the financial strength of the centre was much weaker after October 1954 than it had been previously. This was a trend which was given impetus by the 1946 constitution which encouraged regionalism and which reached its climax in 1954 when Nigeria became a Federation with residual powers vested in the regions and the Federal Government left with specific functions.

A criticism of this system of revenue allocation was that the range of independent revenue given to the Regions was still considerably limited. The Federal Government obtained its jurisdiction over all taxes other than those taxes under the 1946 constitution which were declared Regional. What had happened since 1952 was that the Federal Government had been transfering an increasing proportion of the revenue to the Regions, but the power to tax and to vary the rates of taxes had remained firmly in its hands. The Regional Governments found this irksome and were therefore anxious to increase their tax bases and powers.

Another criticism was the total disregard of the particular needs of a region compared with its revenue raising ability. This is not a necessary result of the derivation principle itself, but of the extent to which it was carried. Another defect had been the disregard for each region's need in relation to its revenue sources, and the disparity in the rates of development which this had brought about.

*2.4 The Raisman Commission (1958)*

Dissatisfaction with the system based on the Chick Report and a decision of the 1957 Constitutional Conference led to the appointment of another fiscal review commission under the Chairmanship of Sir Jeremy Raisman. The Commission's Report was published in 1958 and it recommended regional retention of Independent revenues. This was designed to confer on the Regions a higher degree of fiscal autonomy, this was an expression of the principle of derivation. Other recommendations were that whereas under the previous system, mining rents and royalties were allocated 100% to the Regions of origin, the Raisman Commission recommended that they be divided as follows:

50% to the Regions of origin
20% to the Federal Government and
30% to be paid into a Joint account of all the Regions styled the Distributable pool Account.

It should be noted that by 1957, the application of the principle of derivation had poisoned inter-governmental relationships and has exacerbated inter-regional rivalry and conflict. Perhaps more than any other single factor, it had hampered the development of a sense of national unity or common citizenship in Nigeria. It soon became clear that in relation to its size and needs, the north suffered most from the application of the principle. At the same time, slump in cocoa trade of the West and columbite trade of the North brought about a decrease in the earlier advantages of the principle enjoyed by the West (Nnoli, 1978).

*2.5 The Binns Commission (1964)*

Mr. K. J. Binns was appointed in 1964 to review the revenue system. The Commission recommended that the share of the Distributable Pool Account out of the proceeds of general import duties and mining rents and royalties should increase from 30% to 35%. There was a corresponding reduction of the Federal Government's share of these taxes. In effect, the Binn's Commission recommended the continued retention by the Regions of 100% of all export duties, 100% import and excise duties on tobacco, 100% of the duties on fuel, 50% of mining rents and royalties and 30% of other import duties. The 'Principle of financial comparability' which came in vogue at this time seemed to involve the relative

consideration of the cash position of the Regions, their tax efforts and the standard of services provided by them.

*2.6 Decree no. 15 of (1967)*

By Decree No.15 of 1967, the Military Administration created twelve states in the country. The same Decree provided that the newly created states should share the revenue allocated to the former regions out of which they were created. The Binns Commission's recommendations were thus retained.

The principle of derivation and the Distributable Pool Account which prevailed in 1967 raised four main problems. This principle was based on the right of each state to the taxes that its inhabitants are assumed to have contributed. In the first place, many of the states found themselves with insufficient revenue with which to meet their responsibilities. The revenue yielding base of the newly created states was naturally much smaller than that of the old regions. It also differed widely and in some cases was manifestly inadequate.

Secondly, the allocation of revenues on the 'principle of derivation' made the finances of each state very dependent on the level of its own limited productive activities (e.g. of export crops and mining) and on the level of consumption. States revenues were thus liable to considerable fluctuation.

Thirdly, the system gave rise to unacceptable disparities between states, since the financial receipts of well paced states were not necessarily related to their share of the national population, size of territory, capacity to foster development, or existing commitments on social overheads.

Finally, the formula for sharing the funds of the Distributable Pool Account became quite arbitrary. Before the creation of states in 1967, the account was divided among the regions in the ratio of 42% for the North, 30% for the East, 20% for the West and 8% for the Mid-West. There was no more precise formulation of the criteria used.

It was therefore difficult to alter these percentages on any objective basis to meet the needs of the new twelve state system (Oyovbaire 1978).

By reducing the weight which the previous structure of fiscal federalism assigned to the 'principle of derivation', the new arrangements have in effect emphasized the 'principles of need, equality among the states and balanced development'. These changes were however strengthened in 1971 by the Federal Government's distinction between revenue from on-shore and off-shore production of oil and its decisions to take over all royalties, rents and other revenues from off-shore oil production.

*2.7 The Dina Committee (1969)*

The financial provisions of Decree No.15 of 1967 were criticized on the grounds that it dealt only with the Distributable Pool Account and failed to take cognizance of the basic elements of the previous allocations of revenue between the constituent units of the Federation, viz, (i) Population (ii) Financial need (iii) Derivation. For these reasons, the Dina Committee was set up in 1969 to work out an interim revenue allocation formula for the country. The report of the Committee was quite unfavourable since it seemed to reduce the powers and functions of the states and as such were not accepted by the Government of the Federation.

*2.8 Decree no. 13 (1970)*

This decree introduced some changes into the revenue allocation system. For example, under this decree whereas (i) 100% Export Duties went to the State of origin, only 60% was to go to them while 40% was retained by the Federal Government; (ii) 100% duty on fuel was paid to the states of consumption, only 50% was paid to them. The balance of 50% was retained by the Federal Government; (iii) 50% mining rents and royalties were formerly paid to the state of origin, these were now reduced to 45%. The Distributable Pool Account was credited with 50% of the proceeds while the Federal Government retained the remaining 5%; (iv) 50% excise duties was to be paid into the Distributable Pool Account while the remaining 50% was retained by the Federal Government (v) the Distributable Pool Account was now to be distributed 50% proportionately according to the population of each state. The net effect of these changes in the allocation system was the accrual of more revenues to the Federal Government.

*2.9 Decree no. 9 (1971)*

This decree which took effect from 1 April, 1971 transferred all royalties and rents derived from petroleum on the territorial waters to the Federal Government.

The failure to develop, on a continuous basis, a wealth of data that would grow in size as well as in sophistication paved the way for a return in 1970 to a more simplistic two-factor formula of population and equality of states. The bone of contention was usually, if not always, how much to keep on the basis of derivation and how to share the revenue that passed through the common pool among the Regions or States. The rivalry was less between the Regions combined against the centre as among the Regions themselves. The primary motivation for revenue sharing in the older Federation was economic, especially, to assist the financially and fiscally weak states with federally collected revenues (The Revenue Act 1982:16).

The principle of derivation, with time, began to produce quite unprecedented disparities in state revenues. The two major oil-producing states (Mid-West and Rivers) began to accumulate huge surpluses and were the envy of all the other states. The Federal Government, benefiting from the petroleum profits tax, also began to run a surplus which gave it the means of effecting changes in the structure of revenue allocation. It was able to abolish export duties and make compensating grants, introduce uniform rates and allowances for income tax and increase the size of the Distributable Pool Account (DPA). The pre-war political system was characterized by a weak centre denuded of authority and vitality by a conflicting set of regional interests. The configuration of forces in the post-war situation was quite different in a number of ways. The most obvious change was the enhanced status of the Federal Government, which had undertaken the mobilization of the country's resources during the war and initiated thereafter a programme of reconstruction and rehabilitation. This status was facilitated mostly by the rigid centralized and hierarchical organization/command structure of the military that was in charge of affairs.

Since the end of the Nigerian Civil War, the Federal Military Government has increasingly used ad-hoc grants to the states for specific projects as one way of dealing with the problems posed by the failure to match financial resources with constitutionally determined functions. While the use of ad-hoc grants has some merits, the weight of academic and governmental opinion over this is critical on several grounds. Essang (1979:237) observes thus: "First is the absence of a formula for disbursement, a circumstance which results in some states getting a disproportionately large share while other states go begging. Second is the increased power which the practice confers on the Federal bureaucracy. Third, is the criticism that being a grant for specific capital projects, it could encourage the financing of some not very productive capital projects which are likely to give rise to burden some recurrent expenditures. Fourth, is the fact that it fosters on Oliver Twist's mentality on the part of the States".

By 1973, an additional element of rivalry and controversy had been added to the problem of revenue allocation. Hitherto, the controversy had been largely one dimensional. It was simply a controversy between the regime concerning the formula to be used in sharing among them, the proportion of federally collected revenue allocated for sharing between them. The financial resources secured to the federal and state governments became thoroughly unbalanced as a result of the oil boom and the vast industrial growth that occurred in the country from 1973 onward. By these developments, the revenue from petroleum profit tax and companies income tax increased ten folds respectively by 1976-77 putting vast amounts of money in the hands of the Federal Government. It was the unfairly discriminatory manner in which the Federal grants-in-aid were disbursed so as to favour some states against others, often on purely arbitrary grounds, that aroused perhaps the greatest indignation against the arrangement. The grants system aroused objection on other grounds too, such as the uncertainty surrounding them.

*2.10 The Aboyade Technical Committee (1977)*

This committee was set up in 1977 and it gave the Local Government for the first time a statutory share of the Federation Revenue. The piece-meal approach to revenue allocation was discontinued. The federally collected revenue was regarded as belonging to the whole country and the Federal Government was given a fixed percentage share.

There was hardly any principle that enjoyed the support of all units of government at any one point overtime. Each government changed its advocacy of particular principles according to the prevailing circumstances. Three basic issues dominated financial and fiscal relations between 1966 and 1979. Accordingly, the politics of revenue allocation were affected by these three major factors. First, is the

structure of the Nigerian Military. Second, is the increase in the number of governmental units in the federation: from four (excluding the Federal Government) regions to twelve states in 1967, to nineteen in 1976, to twenty-one in 1989, to thirty in 1992 and later to thirty-six; and in addition the acceptance of 299 units of local government (which is currently 7…units) as the third tier of government. The tremendous increase in the importance of oil as the major source of revenue made revenue sharing difficult partly because the largely rich small units of government were faced with demands from the largely poor units (Onyediran 1979:194).

The organizational structure of the Military affected the politics of revenue allocation during this period in three directions: (a) the power relations between the centre and the states (b) the nature of the reaction of Military Governors who felt aggrieved by the prevailing revenue allocation principles and (c) the frequency of changes in allocation formula. Between 1967 and 1979, revenue allocation in Nigeria was based not only on ad-hoc arrangements but also influenced by the super-ordinate – subordinate relationship between the Federal Government and other units of government. The composition of the Distributable Pool Account and the allocation formula changed several times during the military rule. The changes were more frequent between the period 1966 and 1975 than during the previous eighteen years. On the one hand, this can be said to be advantageous in the sense that dissatisfaction with an existing system was not allowed to deepen to crisis level before changes were made. On the other hand, however, it also points to the fact that fiscal centralism was the accepted system during the period. Not only have revenues from oil been growing very rapidly, but the tax had risen from its position of insignificance in the early '60s to one in which it accounted for almost two thirds of federal revenue in 1974/75. The effect of these was two fold. Since this productive source of federal revenue continued to be excluded from the revenue allocation systems, the federal government continued to pile up surpluses whilst the states had deficits. The proportion of federal revenue that went to the states declined by about one third during this period. Secondly, it accounted in part, at least, for the indifference of states to internal revenue sources.

Three factors have contributed to the federal superiority in revenue allocation. The acquisition by the Federal Government of functions which were the constitutional responsibilities of the States. This centralization was encouraged by the buoyant revenue position of the former and partly, the need to promote national unity. The net effect of the federal presence was either to abolish completely or reduce considerably the state governments' independent sources of revenue. Finally, the psychology and the operational philosophy of the military organization as noted earlier tended to contribute to the centralization tendency (Oyediran 1979).

### *2.11 Okigbo Commission or Presidential Commission (1979)*

It was set up in 1979 to examine the existing formula for revenue allocation, having regard to such factors as national interest, derivation, population, even development, equitable distribution and equality of states. The report was submitted in 1980 and recommended the following:

Federal Government – 53%, Special Fund – 7%, State Governments – 30%, Local Government Councils – 10%. For the sharing of the States Joint Account, it recommend – minimum responsibilities of government – 40%, population – 40%, social development factor (Primary School Enrolment) – 15%, Internal revenue effort – 5%.

## 3. Recommendations of Political Bureau of 1986

President Ibrahim Babangida's administration appointed 16 – member Political Bureau for transitional programme, headed by Dr. S. J. Cookey to study and make recommendations, having identified the basic problem which have led to our failure in the past and suggest ways of resolving and coping with the problems. Under the section on Revenue Allocation, the Bureau recommended that:

(a). A higher percentage of revenue from the Federation Account than the current 10% should be allocated to the local government (at least, 20%).

(b). There is the need to create Local Government Joint Account to be opened at the nearest Central Bank of Nigeria branch in each state into which all funds (including state contribution of not less than 10% of internally generated revenue) meant for local governments in the state should be put and disbursed to them directly.

(c). Fiscal responsibilities between the Federal and State Governments should be reviewed to give local governments greater latitude to collect revenue from more sources to enable them meet their expanded roles in the new political order.

(d). Revenue from the Federation account should continue to be allocated to the states based on the existing principles.

(e). The dichotomy between on-shore and off-shore in the allocation of revenue due to the oil producing states should be abolished.

(f). A permanent national revenue and fiscal commission should be established. The commission should have autonomous status comparable to National commission on political parties and Elections.

The Bureau's recommendations were accepted for implementation by the federal Government. These formed the basis of revenue allocation in Nigeria until the recent past.

**4. Report of the 1994/95 Constitutional Conference Committee on Revenue Allocation**

The Committee rightly saw a special relationship between revenue allocation and revenue generation and the politics involved in this issue. To the committee, the fundamental development issue in a true federation, is the generation of revenue with accelerated economic and social development. The committee opined that emphasis should be on revenue generation since a revenue allocation formula that tends more towards revenue sharing than revenue generation is a serious depressant to economic development and tends to generate ethnic rivalry and rancour, thus making government less productive.

The Committee was confronted by doubts in some quarters as to whether revenue allocation formula should be entrenched in our country's Constitution. The Committee saw the merits and demerits of the options and resolved that the formula is to be entrenched in the Constitution and at the same time flexibility built into it. It was further resolved that the revenue allocation formula should be reviewed once every four (4) years by the National Revenue Mobilization, Allocation and Fiscal Commission. The Commission should be constituted with a member from each state of the Federation. The recommendations of the NRMAFC shall be submitted to the National Assembly for approval. In determining the formula, the National Assembly shall take into account allocation principles especially those of population, equality of states, internal revenue generation, land mass/terrain as well as population density, provided that the principle of derivation shall be constantly reflected in any approved formula as being not less than 13% of the revenue accruing to the Federation Account directly. However, that derivation shall be deemed to include any amount that may be set aside for funding any special authority or agency for the development of the states of derivation.

**5. Revenue Allocation in the 1999 Constitution**

The 1999 constitution ensured overwhelming dominance of the Federal Government in revenue allocation. Section 162(2) of the 1999 constitution provides in part that: "the principle of derivation shall be constantly reflected in any approved formula as being not less than thirteen percent of the revenue accruing to the Federation Account directly from any natural resources". Meaning that the 87 percent balance goes to the "Federal Account" to be put at the disposal of the Government of the Federation. It is not strange therefore that in line with Federal Dominance, section 44 (3) of the constitution provides that:

The entire property in and control of all minerals, mineral oils and natural gas in, under or upon any land in Nigeria or in, under or upon the territorial waters and the Exclusive Economic Zone of Nigeria shall vest in the Government of the Federation and shall be managed in such manner as may be presented by the National Assembly.

Vesting of all rights to oil resources in the Federal Government, however, runs contrary to true federalism. More significantly, one is inclined to question the propriety or raison d'etre of incorporating section 162(3 – 8) into the 1999 constitution given the language of section 162(2) putting revenue allocation based on derivation at 13 per cent especially when section 44(3) makes it abundantly clear that revenue derived from natural resources shall be vested in and managed by Government of the Federation "in such manner as may be prescribed by the National Assembly". To ensure total subordination of the States (and Local Government Councils) to the Federal Government, section 166(1) of the constitution does not mince words: "Any payment that is required to be made by the Federation to a State may be set-off by the Federation in or towards payment of any sum that is due from that state to the Federation in respect of any loan made by the Federation to that state".

### 6. Problems of Revenue Allocation in Nigeria

It could be seen from the above that the Nigerian fiscal system had been subjected to a series of reviews and changes. None of these had ensured mutually acceptable system of allocation in which the conflicting interests of the Federal and the State Governments have been harmoniously reconciled. Another important element to note is that all the revisions of the revenue allocation formula since 1964 have been ad-hoc and based on expediency but not on any basic study of the perennial problems which plague revenue allocation in this country. In spite of the various recommendations, the problem of revenue allocation still plagues the country. It has remained an emotive, sensitive and highly politicized issue. The regional factions of the privileged classes have continued to maneuver and scheme for greater advantages in the division of the common cake. Only in this manner can they improve their benefits from society.

Past revenue allocation exercises have been partial in two respects. First, they have rarely taken account of the totality of the financial resources flowing from the Federal Government to the States. A look at the totality of federal financial resources available to each state of the federation within a plan period would show that the advantage enjoyed by oil producing states such as Ondo, Akwa Ibom, Rivers, Bayelsa and Delta appears exaggerated. Past revenue allocation exercises have also been partial because of the exclusion of sources of revenue with high growth potential. For instance, excluded from revenue allocation are excise duties which because of rapid and extensive growth of manufacturing industries, has immense potential as a source of revenue.

The phenomenon of revenue allocation is quite important in federal finance. In Nigeria, the allocation of revenue between the federal government and the component parts and among the units themselves is fraught with a number of complicated problems which range from economic to political.

Since the attainment of federal status, a number of commissions were appointed to study the systems of revenue allocation and make recommendations to the governments on how the national revenue can be fairly and equitably allocated among these levels of government, yet none has been able to arrive at a generally acceptable system and formula. This problem is rooted in the nature of the peculiar federalism in Nigeria. It is either the centre is too weak as was the case during the first republic or too strong as it has been during the military administrations and thereafter. The political implication of the former was that the regions were too strong that they were able to influence the allocation formula in favour of the principle of derivation which made the former western Nigeria very rich. In the case of the latter, that is, military administrations, the centre was too strong that it exercised power of monopoly and could manipulate the formulas or influence the commissions on revenue allocation in its favour. But in a true or developed federalism, the issue of revenue allocation is done through political bargaining and agreement between the inclusive and component governments with a view to making funds available to each level of government to effectively exercise its constitutional responsibilities. In Nigeria, however, the reverse seems the case, since the federal government collects virtually all the juicy revenues and allocates same in the way and manner it deems fit. The result is that some states are given more than the others depending on their relative political influence which leads to uneven development among the states and, in consequence, breeds mutual hatred and acrimony among stake holders.

The lack of foresight and objectivity on the part of the economic planners is a problem in the system of revenue allocation. The past fiscal blueprints and schemes have always lacked valid economic base, with the exception of the criterion of derivation, according to which the percentage of revenue allocation to each state is proportional to the share of taxes derived from each state by the federal government. In Nigeria, because of the emergence of petroleum, this principle in effect dictates that the states from where the huge oil tax revenues are derived are entitled to a disproportionately large share. Apart from the absence of economic base, derivation as a criterion for revenue allocation has distinct disadvantages such as the creation of disparities in financial resources available to the states. Table 1 is archetypal and instructive, the encouragement of imbalance between constitutionally determined functions and financial resources, inter-state jealousy and the exposure of the state to fiscal instability. In a growing population as is the case in Nigeria, development plan should be positively geared towards the fields of agriculture and industry in order that the growth rate of economy should measure up with increase in population growth. But the reserve is always the case, since development planners hardly carry out what they state on papers or sometimes are left uncompleted if ever they take off. This results in the disproportion between the population growth and economic growth rate. Unfortunately, the government turns attention to the oil industry whose operations are quite unpredictable given price fluctuations and other vagaries.

Coupled with this problem is the fact that the Federal Government worsens the situation by not

providing enabling environment for the enthronement of credible revenue allocation formula. This is evident in the role successive governments played in this regard. Whenever the government appoints a commission on revenue allocation, it also sets guidelines for such a commission to guide its conduct and recommendations. Often, any deviation is regarded as an act of sacrilege. A typical example was the rejection by government of the Dina Commission's Report in 1969.

**Table 1:** *Summary of Allocations to States and fct*

| S/NO. | STATE | TOTAL ALLOCATION FROM JAN. – NOV. 2000 |
|---|---|---|
| 1. | Abia | 5,259 ,915,841.63 |
| 2. | Adamawa | 5,871,458,721.52 |
| 3. | Akwa Ibom | 17,607,583,966.25 |
| 4. | Anambra | 5,724,799,366.23 |
| 5. | Bauchi | 6,122,367,499.39 |
| 6. | Bayelsa | 14,224,432,666.33 |
| 7. | Benue | 6,701,872,878.14 |
| 8. | Borno | 6,876,344,937.98 |
| 9. | Cross River | 5,700,588,604.44 |
| 10. | Delta | 21,967,447,802.89 |
| 11. | Ebonyi | 4,489,871,889.26 |
| 12. | Edo | 6,032,706,397,488 |
| 13. | Ekiti | 4,673,177,662.16 |
| 14. | Enugu | 4,969,946,755.19 |
| 15. | Gombe | 4,598,488,291.09 |
| 16. | Imo | 6,721,231,797.21 |
| 17. | Jigawa | 6,102,775,963.10 |
| 18. | Kaduna | 7,491,188,132.86 |
| 19. | Kano | 8,472,647,064.17 |
| 20. | Katsina | 7,275,106,262.55 |
| 21. | Kebbi | 5,540,153,136.46 |
| 22. | Kogi | 5,431,225,536.26 |
| 23. | Kwara | 5,431,225,536.26 |
| 24. | Lagos | 8,439,509,966.47 |
| 25. | Nassarawa | 4,731,525,976.90 |
| 26. | Niger | 6,704,156,023.53 |
| 27. | Ogun | 6,069,786,522.66 |
| 28. | Ondo | 9,120,540,160.12 |
| 29. | Osun | 5,611,397,663.78 |
| 30. | Oyo | 6,998,874,287.27 |
| 31. | Plateau | 5,467,635,943.91 |
| 32. | Rivers | 15,804,808,403.91 |
| 33. | Sokoto | 5,075,568,484,57 |
| 34. | Taraba | 5,561,701,063.37 |
| 35. | Yobe | 5,350,774,33.66 |
| 36. | Zamfara | 5,127,552,609.16 |
| 37. | FCT Abuja | 29,016,021,824.52 |
| | **TOTAL** | **293,480,629,133.90** |

**Source:** *Democracy in Action: Progress Report. Abuja: Federal Ministry of Information and National Orientation. See also Biong, F. E. (2001:87).*

Another bottleneck in the management of federal finance in Nigeria is that, unlike a developed federal system of government which has inbuilt mechanisms and structures to manage and resolve any tension or conflicts that may surface in the process of revenue allocation, the system must of necessity be directed by a unique national objective in its fiscal policy as well as revenue allocation. Moreover, it is important to note that since 1946 when a unitary constitution was formulated for Nigeria, the number of constitutions now stands at seven but the number of states continue to increase and change in structure and composition. It will be politically, socially and economically desirable to review the constitution from time to time.

Another important factor which acts as a setback is the mental posture or the psychological propensity of many Nigerians. A system of revenue allocation is just and fair to Nigerians only when it favours them, but if it goes contrary to their expectations, such a system is considered bad and ill-motivated. The efforts on the part of the Federal Government to awaken the spirit of national consciousness, patriotism, national unity and integration is far on the horizon. This is because of the heterogeneous and pluralistic nature of our polity, which is segmented along ethnic lines. No matter the names one gives to states carved out of the three former regions, it has little or no relevance to ethnic loyalty. The overall effect of this is alienation from the centre. Therefore every formula or system of revenue allocation is hardly devoid of ethnic and parochial interpretation particularly if the composition of the revenue allocation commission committee does not reflect the so-called federal character. Quite often, what would have served as a useful formula and solution to the problems of revenue allocation is often sacrificed on the alter of national unity and stability.

The major constraints associated with Nigerian Federal finance and revenue sharing is that its operation is incompatible with the objectives of standard public finance practice. According to Adedeji (1996:12), "Federal finance in Nigeria has developed and operated virtually in complete disregard of the main objectives of public finance – allocation efficiency and equity – in the sharing of revenue, particularly among the regions; such principles of federal finance as need, equity, stability and national interest have played secondary roles". Emphasis he further argues, has been placed on the derivation principles, as the basis of revenue allocation. This, together with the lack of in-built process of adjustment in the fiscal system, has hampered the development of national unity and inhibited the growth of an effective development oriented national and fiscal policy.

## 7. Suggested Remedies

It is important to point out that no single formula can serve as the best index for the allocation of revenue among the units in the country but a careful combination of a number of them can be applied simultaneously.

Grants to the states should be based on necessity and viability of projects and the supervision of such projects should be undertaken by the federal government officials to ensure that the fund received is directed to the purpose for which the grant was made. The use of such funds should be audited by the Federal Government and any trace of fraud should earn the concerned culprits summary dismissal besides being made to refund the money no matter their rank, and where applicable, erring state(s) or Local Government(s) should be blacklisted.

States should only be created if viable, because there is certainly no justifiable rationale in creating many economically unviable states which, in the long run, becomes liabilities to the Federal Government. After all, one of the main reasons of creating more states is to spread development to rural areas and if the states fail in this direction, the purpose for which they were created is defeated. Any perceptive and informed observer will agree that all the states in the Federation, apart from Lagos State, are economically unviable. (see table 2 showing the extent of dependence of the States on Federal revenue in terms of *internally generated and Federal to State* revenue as ratios of budgets of all State Governments). For this and other reasons, emphasis should now be placed more on the local governments, being the nearest arm of government to the grassroots as well as the new agents of development.

With reference to the distribution of revenue from the Distribution Pool Account, the principles of independent tax effort and fiscal efficiency should be applied and be based on flat rate tax to be certain that all segments of the state's population are involved. Federal contribution to the Distributable Pool Account should come from import duties, income tax and company tax. This would reduce the dependence of the units on sources whose revenue yields fluctuate widely with the state of the international markets as is the case with agricultural produce. In making allocations from the Distributable Pool Account to the states, the finance body should be guided mainly by the following criteria: (a) per capita income; (b) tax efforts; (c) the geographic area of each state and the configuration of the area. Funds to be used in meeting the special difficulties of the units should not be drawn from the Distributable Pool Account but from the resources of the inclusive governments.

**Table 2.** *Budget position of all state governments 1994 –1999*

| STATES | Internally Generated (%) | Fed. to State Allocation (%) | Internally Generated (%) | Fed. to State Allocation (%) | Internally Generated (%) | Fed. to State Allocation (%) |
|---|---|---|---|---|---|---|
| Abia | 15.29 | 84.70 | 7.35 | 92.65 | 23.13 | 76.87 |
| Adamawa | 5.25 | 94.74 | 5.27 | 94.73 | 13.12 | 86.88 |
| Akwa Ibom | 10.04 | 89.95 | 10.27 | 89.21 | 23.09 | 76.91 |
| Anambra | 15.66 | 84.33 | 9.84 | 90.16 | 28.12 | 71.88 |
| Bauchi | 5.73 | 94.26 | 3.78 | 96.22 | 16.34 | 83.66 |
| | | | | | | |
| Benue | 5.56 | 94.43 | 2.74 | 97.26 | 29.68 | 70.32 |
| Borno | 3.85 | 96.14 | 3.49 | 96.51 | 16.34 | 83.32 |
| Cross River | 11.80 | 88.20 | 9.71 | 90.29 | 24.83 | 75.17 |
| Delta | 6.95 | 93.05 | 25.55 | 74.45 | 54.01 | 45.99 |
| Edo | 10.53 | 89.47 | 14.97 | 85.03 | 31.89 | 68.11 |
| | | | | | | |
| Enugu | 12.57 | 87.43 | 6.25 | 93.75 | 35.09 | 64.91 |
| Imo | 16.10 | 83.9 | 11.04 | 88.96 | 33.75 | 66.25 |
| Jigawa | 7.48 | 92.52 | 5.83 | 94.17 | 20.48 | 79.52 |
| Kaduna | 9.98 | 90.02 | 9.00 | 91.00 | 29.89 | 70.11 |
| Kano | 14.59 | 88.41 | 14.28 | 85.72 | 29.13 | 70.87 |
| | | | | | | |
| Katsina | 14.10 | 85.90 | 4.60 | 95.40 | 15.08 | 84.92 |
| Kebbi | 4.64 | 95.36 | 7.12 | 92.88 | 17.39 | 82.61 |
| Kogi | 4.36 | 95.64 | 6.75 | 93.50 | 19.99 | 80.01 |
| Kwara | 14.10 | 85.90 | 8.61 | 91.39 | 20.89 | 79.11 |
| Lagos | 53.20 | 46.8 | 58.8 | 41.20 | 78.29 | 21.71 |
| | | | | | | |
| Niger | 2.70 | 97.3 | 1.57 | 98.43 | 10.07 | 89.93 |
| Ogun | 7.88 | 92.12 | 4.30 | 95.70 | 29.26 | 70.7 |
| Ondo | 16.18 | 83.82 | 13.73 | 86.27 | 32.89 | 67.11 |
| Osun | 9.47 | 90.53 | 4.86 | 95.14 | 33.68 | 66.32 |
| Oyo | 20.5 | 79.50 | 3.35 | 94.65 | 40.89 | 59.11 |
| | | | | | | |
| Plateau | 12.17 | 87.83 | 7.54 | 92.46 | 26.45 | 73.55 |
| Rivers | 20.12 | 79.88 | 69.55 | 30.45 | 69.01 | 30.99 |
| Sokoto | 9.43 | 90.57 | 2.49 | 97.51 | 26.25 | 73.75 |
| Taraba | 4.96 | 95.04 | 10.47 | 89.53 | 15.73 | 84.27 |
| Yobe | 5.14 | 94.86 | 0.8 | 99.20 | 3.4 | 96.54 |
| **Total** | **13.31** | **86.69** | **36.54** | **63.46** | **36.54** | **63.54** |

- *Computed from data from National Rolling Plans, 1994 1996; 1996 1998; and 1999*
- *See Bisong F. E. (2001:83)*

It is saddening to note that Nigeria which used to be an agricultural nation is now on the brink of starvation. It is important to note that when all the component regions were contributing, one way or the other through agriculture, to the nation's foreign reserve, the issue of revenue allocation was not reduced to brinkmanship. But with the emergence of oil, agriculture suffered regrettable neglect since each component, region/state anchored hope on the oil revenue. Steps should be taken to revamp agriculture and the non-oil productive sector through a combination of mechanised and mass labour techniques. Farmers should be encouraged by instituting a regime that will guarantee reasonable prices for their

commodities. This is quite important at this period when fortunes from oil are fast becoming unstable and unpredictable in the world market.

Stripped of ambiguities and common-sense notion as an economic issue, revenue allocation, like budgeting, remain essentially a political matter even though ostensibly guided by economic principles. Any attempt to take politics out of revenue allocation is bound to fail. The experience of revenue sharing under the military has demonstrated the need to take cognizance of political factors. It is true that the nature of military organization and indeed the growing sense of natural awareness considerably minimized the impact of these political factors. The same factors have also made it easier for the military to transfer revenue from one level of government to another. Nonetheless, it is a questionable conclusion that the absence of a nationally acceptable revenue-sharing formula, even under the military, has been due primarily to political considerations. There is no gainsaying that revenue allocation cannot be devoid of political implications, but since in the strict sense of the term politics is the art of compromise, a compromise solution should be arrived at in the allocation of revenue in the polity in the interest of national unity, national integration and national consciousness. Steady advance toward this goal is canvassed in this paper.

It is clear that the major problems of revenue allocation in Nigeria have revolved around 'who gets what' from the federal revenue. The sources of revenue affected have remained unchanged for three decades, but the proportions of these revenues to be shared by the states, have changed from time to time. The various principles for Inter-state sharing which have been tried over these three decades can thus be summarized as follows: (1) Derivation; (2) Even development; (3) Need; (4) National interest; (5) Independent revenue; (6) Continuity (7) Minimum responsibility; (8) Financial compatibility; (9) Population; (10) Equality of states; (11) National minimum standards; (12) Equality of access to development opportunities; (13) Absorptive capacity; (14) Tax effort; and (15) Fiscal efficiency. Which principle (or combination of principles) to emphasize remain a function of the nation's unique circumstances and the level of accommodation/compromise in the politics of the nation. Herein lie the challenge of nation-building starring at the nation's leadership and policy-makers.

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## APPENDIX

*A tabulated summary of: revenue allocation: formula and computations (1946 – 1992) in Nigeria*

| | Commission | Conceptual Formula | Computed Allocations |
|---|---|---|---|
| 1. | Phillipson, 1946 (Operated between 1946 and 1951) | i). Derivation<br>ii). Even-Progress (Even-Development) | Not Available |
| 2. | Hicks-Phillipson 1951 (Operated between 1951 and 1953) | i). Independent Revenue<br>ii). Derivation<br>iii). Need<br>iv). National autonomy | Not Available |
| 3. | Chick (Operated | i). Derivation | 100% import duty on motor spirits. |

| | | | |
|---|---|---|---|
| | Between 1953 and 1959) | ii). Fiscal autom | Federal Income Tax (Distributed on the basis of derivation) royalties and rents from mining, 50% from all imports, 50% of all export duties.<br>The actual resources distributed were computed on the basis of the 1950-51 Nigerian National Income and Distributing consumption expenditures which were used to weight each region's sum of federally – allocated revenue.<br>The regional estimates produced the following weights:<br>A. 1. Western Region (including Lagos Capital) 45.4<br>2. Eastern Nigeria and Southern Cameroon 27.4<br>3. Northern Nigeria 27. 2<br>B. Later changes in estimates and adjustments:<br>1. Western Region 40%<br>2. Eastern Region 30%<br>3. Northern Region 30%<br>C. Adjustment as a result of the separation of Southern Cameroon from Eastern Nigeria<br>1. Western Region 40%<br>2. Northern Region 30%<br>3. Eastern Region 29%<br>4. Southern Cameroon 1% |
| 4. | Raisman 1958 (operated between 1959 and 1967) | i) Continuity of the existing level of service<br>ii) Basic responsibility of each regional government<br>iii) Population<br>iv) Derivation<br>v) Balanced Development | 100% of all export duties and all import and excise duties on tobacco and motor spirits and diesel oil (to the Region's bags).<br>**Rents and Royalties on Mining**<br>50% of rents and royalties to the producing regions.<br>20% to the Federal Government<br>30% to the other regional governments<br>**DPA (Distributable Pool Account)**<br>30% of all import duties minus tobacco, liquor, motor spirits and diesel oil<br>70% to the Federal Government |
| 5. | Binns, 1964 | Continuation of Raisman | **On Physical Need (Population) from DPA**<br>Northern Nigeria 40%<br>Western Nigeria 24%<br>Eastern Nigeria 31%<br>Southern Cameroon 5%<br>N1.0 million paid to the North as grants for the imbalance caused by the derivation criterion of the past.<br>**35% to the DPA distributed among regions:**<br>Northern Region 42%<br>Eastern Region 30%<br>Western Region 20%<br>Midwestern Region 8%<br>Adjustment due to the loss of Southern Cameroon in 1961<br>1. Northern Region 42% 40/95<br>2. Western Region 19% 18/95<br>3. Midwestern Region 6% 6/95<br>Eastern Region 33% 31/95 |
| 6. | Dina, 1968 (Not implemented) | National Integration | 90% of rents and royalties to DPA<br>10% to the State Governments. Insignificant oil rents and revenue given to the Producing States. |
| 7. | Decree No 13 of 1970 | i) Increased Federal share<br>Derivation | 60% of the export duty instead of former 100% allocation now given to the State governments.<br>50% of duty on motor fuel instead of previous 100% |

| | | | |
|---|---|---|---|
| | | | 50% of excise duty.<br>5% additional rents and royalties on mining for States by derivation also went into the coffers of the Federal Government. |
| 8. | Decree No 9 of 1971 | Federal Exclusive | 100% of rents and royalties on off – shore oils went into coffers of the Federal Government. |
| 9. | Other Interim Allocations (1969 – 1974) | Largely Derivation | 90% of duties from motor fuel went to the State of consumption, 10% to DPA.<br>**On – Shore**<br>45% of mining rents and royalties to the Producing States<br>50% to DPA<br>5% to the Federal Government.<br>**Off – Shore**<br>100% rents and royalties to the Federal Government<br>**Excise – Duty**<br>50% to the Federal Government<br>50% to the DPA |
| 10. | Decree No 6 of 1975 | Equality of States<br>Derivation<br>Population<br>Pool Account criterion | 20% on – shore derivation for Producing States<br>80% of mining rents and royalties<br>35% of import duties minus motor spirits, diesel oil, tobacco, and wine<br>100% duties on motor spirit and tobacco<br>50% excise duties<br>100% export duties on hides and skins |
| 11. | Aboyade Technical Committee (1977) | i) Equity of States<br>ii) National Minimum standard<br>iii) Absorptive capacity<br>iv) Fiscal efficiency | Principle Recommended Weighted as<br>% Accepted %<br><br>Equality of access<br>to Development<br>Opportunities 0.25 0.27<br>National Minimum<br>Standard of<br>National Integration 0.22 2.28<br>Absorptive Capacity<br>Independent<br>Revenue 0.20 0.20<br>Tax Export 0.18 0.12<br>Fiscal Efficiency 0.15 0.13 |
| 12. | Okigbo, 1980 | i) Equality (Minimum Responsibility)<br>ii) Population<br>iii) Social Development factors<br>iv) Internal Revenue | **Allocations among Levels**<br>Federal Government 53%<br>State Governments 30%<br>Local Governments 10%<br>Special Fund 7% |
| 13. | Revenue Allocation Act of 1981 (Nullified by the Supreme Court) | i) Equality of States<br>ii) Population<br>iii) Social Development Factors<br>iv) Internal Revenue | **Allocations among Levels**<br>Federal Government 58.5%<br>State Governments 31.5%<br><br>Local Governments 10.0% |
| 14. | Revenue Allocation Act of 1982 | i) Equality of State<br>ii) Derivation<br>iii) Population<br>iv) Social factor on the basis of direct and inverse Primary School Enrolment | **Allocation among Levels**<br>Federal Government 55%<br>State Governments 35%<br>Local Governments 11%<br>Of the 35% allocated to all States, 3.5% went to the Oil – Producing Areas<br>1.0% went for ameliorating of ecological damage<br>The remaining 30.5% distributed on the basis of:<br>a) 40% Equality of States<br>b) 40% Population<br>c) 15% Direct and Inverse Primary |

<table>
<tr><td></td><td></td><td></td><td>School Enrolment<br>d) 5% Internally Raised Revenue Effort</td></tr>
<tr><td>15.</td><td>Political Bureau</td><td>i) Equality of States<br>ii) Population<br>iii) Direct and Inverse Primary Enrolment<br>iv) Internal Revenue Generating Effort</td><td>Allocation among Levels<br>Federal Governments 48.5%<br>State Governments 24.5%<br>Local Governments 20.0%<br>Funds for developing mineral – producing areas 3.0%<br>Special Fund 4.5%<br>State Distributors:<br>Equality of States 40%<br>Population 40%<br>Direct and Inverse Primary School Enrolment 15%<br>Internally Raised Revenue 5%</td></tr>
<tr><td>16.</td><td>National Revenue Allocation Mobilization and Fiscal Commission (1989)**</td><td>i) Development emphasis<br>ii) View of Local Governments<br>iii) Decrease in Federal & State Allocations<br>iv) Population<br>v) Internally generated revenue<br>vi) Social Development based on Primary School Enrolment</td><td>Allocations among Levels<br>Federal Government 50%<br>State Governments 30%<br>Local Governments 15%<br>Special Fund 5%<br>(1.5% for derivation,<br>1% for amelioration<br>of ecological<br>damage, 2.5% for<br>others)<br><br>State Distributors 1990 40%<br>Population 40%<br>Direct and Inverse<br>Primary 15% (11.25%<br>- Direct<br>School Enrolment 3.75%<br>- Inverse<br>Internally Raised Revenue 5%<br>Revised States Distributions 1991<br>Equality of States 40%<br>Population 40%<br>Landmass 10%<br>Internally Raised<br>Revenue 10%</td></tr>
<tr><td>17.</td><td>Interim Allocation (June, 1992)</td><td>As for No. 16 above</td><td>Allocations among Levels<br>Federal Governments 48.5%<br>State Governments 2.40%<br>Local Governments 20.0%<br>Special Fund 4.5%<br>Developing Mineral<br>– Producing States 3.0%<br>State Distributions<br>(Same as Revised States Distributions 1991)</td></tr>
<tr><td>18.</td><td>Oil-Mineral producing Areas Development Commission Decree No. 23 of July, 1992.</td><td>Derivation on-shore, off-shore oil dichotomy abolished.</td><td>Oil-Mineral Producing States receive all revenues on oils paid to the Federation Account in ratio to each State's production for development of their respective States.</td></tr>
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**Sources**: *Ladipo Adamolekun, Public Administration: A Nigerian and Comparative Perspective (London: Longmans, 1983), p.100; J.R Hicks and Sidney Phillipson, Nigeria: Report of the Commission on Revenue Allocation (London: H.M.S.O., 1954); Jeremy Raisman, Report of the Fiscal Commission on the Financial Effects of the Proposed New Constitution (London: H.M.S.O., 1958); F. Akin Olaloku, "Nigerian Federal Finances: Issues and Choices," in Readings on Federalism, edited by A.S. Akinyemi,*

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